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SUBJECT: APEC SENIOR OFFICIAL KURT TONG'S MEETINGS ON APEC AND
U.S.-JAPAN ECONOMIC RELATIONS

¶1. (SBU) SUMMARY: Acting U.S. Senior Official for APEC Kurt Tong emphasized the need to focus on discrete outcomes rather than process in U.S.-Japan economic relations, as well as in setting the agenda for consecutive APEC host years, during meetings with senior GOJ officials and U.S. and Japanese business leaders on July 24. Representatives from the American Chamber of Commerce in Japan (ACCJ) and Japan's APEC Business Advisory Council (ABAC) both expressed a desire to expand dialogue regarding Japan's role in the regional economy. Japanese government interlocutors assessed the GOJ's stance toward APEC engagement would not change significantly under a Democratic Party of Japan (DPJ)-led government. END SUMMARY.

BUSINESS PERSPECTIVES

¶2. (SBU) Over breakfast with the ACCJ Board of Directors, ACCJ Vice President Larry Bates said the chamber is interested in expanding its engagement with APEC, particularly through joint events with Japan's APEC Business Advisory Council delegation. Bates noted the two groups have worked jointly on financial issues in the past. The ACCJ also has an ongoing dialogue with the Keidanren, which functions as a secretariat for Japan's ABAC team, and the two business groups released a joint statement July 21 on calling for initiatives to overcome the economic downturn, including IPR protection measures and customs harmonization. The ACCJ board members also agreed that APEC would be a useful vehicle for engaging Japan on issues that are important to the bilateral relationship and Japan's role in the regional economy. Microsoft's Jim Foster offered the ACCJ's upcoming White Paper on IT (due to be released in September) as an example of an ongoing area of engagement that could be expanded within APEC. Foster stressed Japan must take more steps to harmonize its IT policies with global norms and avoid following a "Galapagos" style growth model.

¶3. (SBU) The ACCJ board members shared their assessments of the upcoming Lower House election and potential changes under a Democratic Party of Japan (DPJ)-led government. Bates said the DPJ appears to be maturing as it contemplates policies to encourage economic reform, however its proposal to increase the number of political appointments so as to limit bureaucratic influence over policymaking may undermine the GOJ's ability to implement effective policies. ACCJ Governor Mitsuyo Teramura questioned the availability of experts from outside the party to consult the DPJ's leadership as it attempts to translate its ideals into workable policies. The ACCJ members are uncertain the DPJ can find another Heizo Takenaka, for example. Regarding U.S. bilateral economic relations with Japan, Tong urged the ACCJ to define concrete measures that might improve U.S.-Japan trade and investment ties, and which might win the support of the DPJ in the first year of its possible governing leadership.

¶4. (SBU) Separately, Gempachiro Aihara, Chairman of Japan's APEC Business Advisory Council delegation, said he looks forward to working with his U.S. counterparts and with the Keidanren to develop an agenda for the consecutive Japan-U.S. APEC years. Tong relayed the ACCJ's interest in working with Japan ABAC members and suggested the groups explore holding a joint event around the time of the next

ABAC meeting in Danang in late August.

METI PERSPECTIVES ON REGIONAL TRADE POLICY

15. (SBU) Ministry of Economy, Trade and Industry (METI) Economic Partnership Division Director Noriyuki Mita, who chairs the APEC investment experts group and directs METI's Free Trade Agreements efforts, said showing some progress toward a Trans-Pacific Partnership (TPP) is essential and asked about the future direction of U.S. trade policy. Tong said he expects the administration to more clearly define its trade policy later this year following the push for health care reform. He added the fate of the KORUS FTA in the Congress will be a major litmus test for U.S. trade policy.

U.S.-JAPAN INVESTMENT INITIATIVE:
NEED FOR CLEAR DELIVERABLES

16. (SBU) Tong stressed to METI Trade Policy Bureau Americas Division Director Yasushi Akahoshi the need to develop clear deliverables that the U.S.-Japan Investment Initiative could achieve in the next year or two, if the Initiative is continued, noting that some officials in Washington assess it has produced more talk than action in recent years. Akahoshi agreed, saying the U.S.-Japan Investment Initiative is useful as "good gaiatsu" for encouraging change within Japan. Akahoshi offered the example of the Cabinet Office's program to expand investment and proposed measures for reforming the mergers and acquisition process as successful deliverables.

17. (SBU) Akahoshi said he expects little change in GOJ engagement with APEC under a DPJ-led government, observing the party's manifesto calls for developing strong ties with Asia (septel). In this regard, Akahoshi suggested APEC may even gain stronger support

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at the political level under the DPJ if it is perceived as an effective vehicle to deepen Japan's engagement with Asia.

MOFA ECONOMIC AFFAIRS DG SUZUKI ON
APEC, BILATERAL DIALOGUE

18. (SBU) MOFA Director General for Economic Affairs Yoichi Suzuki said Japan needs to do more to promote regional integration and that APEC serves as a vehicle for Japan to further open its economy. Suzuki added that DPJ leader Yukio Hatoyama has stated he intends to strengthen Japan's relationship with its Asian neighbors, and Suzuki said APEC will likely be at the top of a DPJ administration's agenda for advancing regional economic integration.

19. (SBU) Turning to the bilateral economic relationship, Suzuki said the United States will naturally be at the top of the GOJ's agenda following the August 30 election, as the new Prime Minister's first overseas travel would likely be to the G-20 financial summit in Pittsburgh. Suzuki added the U.S.-Japan economic dialogue is important for MOFA in pushing issues to the GOJ leadership, such as agriculture reform and climate change. Tong stressed the need for substance, rather than process in the U.S.-Japan economic dialogue. Noting the U.S. Strategic and Economic Dialogue with China, Suzuki identified a need to manage perceptions to avoid the appearance that Japan has fallen off the U.S. leadership's agenda. Tong said this can best be accomplished through a dialogue that produces results, just as with the S&ED.

MOFA DEPUTY FOREIGN MINISTER OTABE ON
U.S. ENAGAGEMENT IN ASIA

10. (SBU) Deputy Foreign Minister Yoichi Otabe said Japan welcomes U.S. "reengagement" with the APEC process and a broader return to Asia, noting Secretary Clinton's signing of the Treaty of Amity and Commerce with ASEAN in Phuket July 22. Speaking of regional economic development, Otabe said the U.S. and Japan should work through organizations such as APEC and the OECD to encourage "inclusive growth". Turning to APEC, Otabe noted the APEC Leaders' Summit will occur shortly before the UN meetings on climate change in Copenhagen and that climate change should also be on bilateral as well as the APEC agendas. Otabe also inquired whether issues such as food security, which could figure prominently in the APEC agenda,

and was highlighted in the L'Aquila G8 Leaders' Statement, should not be coordinated bilaterally before being moved to a multilateral stage. Tong stressed that the United States and Japan should coordinate closely in their APEC efforts to ensure an effective "one-two punch" on issues of concern when hosting the forum in 2010 and 2011.

¶11. (SBU) Turning to the need for a new bilateral economic dialogue, Otabe said it is important that the United States and Japan discuss bilateral issues and coordinate on multilateral issues. Specifically he cited coordination on China as essential and suggested discussions on policy steps Beijing should take to strengthen the social safety net and discourage precautionary savings so as to stimulate growth. Tong reviewed the points he made to Suzuki on the need for any possible future U.S.-Japan economic dialogue to make concrete progress on issues as well as to serve as a coordination forum for multilateral issues. He added that the perception in Washington has been the discussions have been far too process-oriented, and have produced few tangible results. Otabe agreed on the need for results and indicated he had told Deputy NSA Mike Froman that Japan also wants a dialogue that produces results.

ZUMWALT